

CHEBOYGAN HOUSING COMMISSION
CHEBOYGAN, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Cheboygan Housing Commission	County Cheboygan
Fiscal Year End March 31, 2006	Opinion Date October 20, 2006	Date Audit Report Submitted to State December 18, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

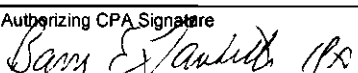
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Internal Control and Compliance	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 1107 E. Eighth Street		City Traaverse City	State MI
Zip 49686			
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA	License Number 11050

CHEBOYGAN HOUSING COMMISSION
TABLE OF CONTENTS
March 31, 2006

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)	3-6
FINANCIAL STATEMENTS	
Basic Financial Statements:	
Fund Financial Statements:	
Proprietary Fund:	
Statement of Net Assets	7-8
Statement of Activities	9
Statement of Cash Flows	10-11
Notes to Financial Statements	12-22
 SUPPLEMENTAL INFORMATION	
Fund Financial Statements:	
Proprietary Fund:	
Combining Statement of Net Assets	23-24
Combining Statement of Activities	25
Combining Statement of Cash Flows	26-27
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	 28
Financial Data Schedule	29-32
 REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL	 33-36
Schedule of Findings and Questioned Costs	37-38
Summary Schedule of Prior Audit Findings	39
Adjusting Journal Entries	40

INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Cheboygan Housing Commission
Cheboygan, Michigan

I have audited the accompanying financial statements of the business-type activities of the Cheboygan Housing Commission, Michigan, a component unit of the City of Cheboygan, as of and for the year ended March 31, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Cheboygan Housing Commission, Michigan, as of March 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cheboygan Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated October 20, 2006, on my consideration of Cheboygan Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Cheboygan Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Cheboygan Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sandy E. Fawcett, CPA, PC

October 20, 2006

CHEBOYGAN HOUSING COMMISSION
CHEBOYGAN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
March 31, 2006

=====

The Cheboygan Housing Commission, created in 1958, by the City of Cheboygan provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended March 31, 2006. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Cheboygan Housing Commission consists of three programs. The first is owned housing, consisting of 38 units of public housing, the second is the capital funding program, and the third is the housing choice voucher program consisting of 120 qualifying low-income residents for rental housing.

Cheboygan Housing Commission had total revenues of \$717,338 that includes \$68,732 in rental payments and \$639,542 in federal assistance. Total revenues increased by \$36,959 from the prior year, in part, because an increase of \$30,400 received for federal assistance received compared to the prior year. Total operating expenses were \$747,534, that includes \$129,160 in administrative expenses, \$20,734 in utilities, \$59,491 in ordinary maintenance and operation, \$425,177 in housing assistance payments, and \$96,869 in depreciation expense. The operating expenses increased by \$15,096, in part, because of an increase in maintenance costs.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$576,459. The Housing Commission's total net assets decreased by \$30,196 from the prior year. The decrease can be attributed, in part, to the depreciation expense of \$96,869.

Total assets of the Housing Commission were \$597,391, of which \$235,779 consisted of current assets and \$20,932 of current liabilities. There was a net decrease in total assets of \$32,262 from the prior year. The decrease is due, in part, because of depreciation expense of \$96,869 is greater than the \$24,388 in capital acquisitions by \$72,481.

2006 Statement of Management Operations:

The Cheboygan Housing Commission is responding to its overall financial positions for the fiscal year that ended March 31, 2006, by declaring whether our financial position has improved or declined during this year, including reasons for significant changes from the prior year and important factors that could affect operating results.

1. Analysis of the overall financial position and results of operations:

a. **Public Housing.** The Cheboygan Housing Commission's Public Housing Program has not changed significantly from the previous years. The primary financial change would be our Capital Fund 2006. These funds from previous years have primarily been used for renovations of all of our Public Housing properties. This year and also next year we plan on using at least 75% of the funding for operations. This decision has been made primarily to replenish our reserves and help with our Public Housing operating budget.

b. **Section 8 Program.** The Commission greatly reduced Housing Assistance Payments over the previous year by reducing the Housing Assistance payment standards back to 100% of Fair Market rents from the HUD permitted 110%. The Section 8 Operations Supervisor maintained a voucher "lease up rate" at monthly average of 99%. Administrative program expenses were higher than budgeted (because of reduced administrative fees by HUD). However, the Commission had adequate funding in reserves to meet these shortages.

2. Analysis of Balances and Transactions of Individual Funds:

There have been no significant changes in fund balances or fund net assets that would have affected this year or the next couple years.

3. A Description of significant capital asset and long-term debt activity:

The Cheboygan Housing Commission has neither short-term nor long-term debt. The significant capital asset activity for current fiscal year includes a bar in the community room, construction of a carport, a front porch, and the seal coating of the parking lot. Commitments made for capital expenditures include replacing and repairing the sidewalks, the remodeling of the office and bathroom, new kitchen sinks and cabinets, seamless gutters for all buildings and new electric stoves.

2006 Statement of Management Operations (continued):

4. Currently known facts, decisions, or conditions effecting net assets or results of operation:

There are no known current facts, decisions, or conditions that would effect the net assets or results of operations.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Financial Analysis of the Housing Commission

The following condensed statement of net assets show a summary of changes for the years ended March 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Current assets	\$ 235,779	\$ 195,560	\$ 40,219
Property and equipment	<u>361,612</u>	<u>434,093</u>	<u>(72,481)</u>
Total assets	<u>\$ 597,391</u>	<u>\$ 629,653</u>	<u>\$ (32,262)</u>
Current liabilities	<u>\$ 20,932</u>	<u>\$ 22,998</u>	<u>\$ (2,066)</u>
Total liabilities	<u>20,932</u>	<u>22,998</u>	<u>(2,066)</u>
Net assets:			
Invested in capital assets	361,612	434,093	(72,481)
Unrestricted	<u>214,847</u>	<u>172,562</u>	<u>42,285</u>
Total net assets	<u>576,459</u>	<u>606,655</u>	<u>(30,196)</u>
Total liabilities and net assets	<u>\$ 597,391</u>	<u>\$ 629,653</u>	<u>\$ (32,262)</u>

Financial Analysis of the Housing Commission (continued)

The following table of summarizes the Statement of Activities of the Housing Commission for the years ended March 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 68,732	\$ 67,449	\$ 1,283
Nondwelling rent	<u>3,498</u>	<u>1,244</u>	<u>2,254</u>
Total operating revenues	<u>72,230</u>	<u>68,693</u>	<u>3,537</u>
Operating expenses:			
Administration	129,160	128,015	1,145
Tenant services	987	1,507	(520)
Utilities	20,734	18,922	1,812
Ordinary maintenance and operation	59,491	48,437	11,054
General expenses	15,116	17,421	(2,305)
Housing assistance payments	425,177	422,343	2,834
Depreciation	<u>96,869</u>	<u>95,793</u>	<u>1,076</u>
Total operating expenses	<u>747,534</u>	<u>732,438</u>	<u>15,096</u>
Non-operating revenue:			
Interest income	5,155	1,598	3,557
Operating grants	618,302	564,699	53,603
Capital grants	21,240	44,443	(23,203)
Gain on sale of fixed assets	100		100
Other revenue	94		94
Fraud recovery	<u>217</u>	<u>946</u>	<u>(729)</u>
Total nonoperating revenue	<u>645,108</u>	<u>611,686</u>	<u>33,422</u>
Change in Net Assets	<u><u>\$ (30,196)</u></u>	<u><u>\$ (52,059)</u></u>	<u><u>\$ 21,863</u></u>

FINANCIAL STATEMENTS

CHEBOYGAN HOUSING COMMISSION
STATEMENT OF NET ASSETS
March 31, 2006

=====

ASSETS

Current Assets:	
Cash	\$ 205,375
Investments-unrestricted	20,000
Prepaid expenses	9,294
Inventories	<u>1,110</u>
Total Current Assets	<u>235,779</u>
Property and Equipment:	
Land	20,559
Buildings	675,973
Equipment	125,105
Building improvements	<u>1,218,598</u>
	2,040,235
Less: accumulated depreciation	<u>(1,678,623)</u>
Net Property and Equipment	<u>361,612</u>
Total Assets	<u><u>\$ 597,391</u></u>

See notes to financial statements

CHEBOYGAN HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
March 31, 2006
=====

LIABILITIES and NET ASSETS

Current Liabilities:

Accounts payable	\$ 10,865
Tenant security deposit liability	6,329
Accrued expenses	1,929
Deferred revenues	<u>1,809</u>

Total Current Liabilities	<u>20,932</u>
---------------------------	---------------

Net Assets:

Invested in capital assets	361,612
Unrestricted net assets	<u>214,847</u>

Total Net Assets	<u>576,459</u>
------------------	----------------

Total Liabilities and Net Assets	<u><u>\$ 597,391</u></u>
----------------------------------	--------------------------

See notes to financial statements

CHEBOYGAN HOUSING COMMISSION
COMBINED STATEMENT OF ACTIVITIES
Year Ended March 31, 2006
=====

OPERATING REVENUES:

Dwelling rent	\$ 68,732
Non-dwelling rent	<u>3,498</u>
Total operating revenues	<u>72,230</u>

OPERATING EXPENSES:

Administration	129,160
Tenant services	987
Utilities	20,734
Ordinary maintenance and operation	59,491
General expenses	15,116
Housing assistance payments	425,177
Depreciation	<u>96,869</u>
Total operating expenses	<u>747,534</u>

Operating income(loss) (675,304)

NONOPERATING REVENUES:

Investment interest income	5,155
Fraud recovery	217
Other revenue	94
Gain on sale of fixed assets	100
Capital grants	21,240
Operating grants	<u>618,302</u>

Total nonoperating revenues 645,108

Change in net assets (30,196)

Prior period adjustments, equity transfers
and correction of errors 4,940

Net assets, beginning 601,715

Net assets, ending \$ 576,459

See notes to financial statements

CHEBOYGAN HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended March 31, 2006
=====

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 73,449
Cash payments to other suppliers of goods and services	(518,585)
Cash payments to employees for services	(127,722)
Cash payments for in lieu of taxes	<u>(4,837)</u>
Net cash (used) by operating activities	<u>(577,695)</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Tenant security deposits	(888)
Operating grants	622,224
Fraud recovery	217
Other revenue	<u>105</u>
Net cash provided by noncapital financing activities	<u>621,658</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Gain on sale of fixed assets	100
Capital grants	21,240
Payments for capital acquisitions	<u>(24,388)</u>
Net cash (used) by capital and related financing activities	<u>(3,048)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Receipts of interest and dividends	<u>5,155</u>
Net cash provided by investing activities	<u>5,155</u>

Net increase(decrease) in cash 46,070

Cash, beginning 159,305

Cash, ending \$ 205,375

CHEBOYGAN HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2006
=====

RECONCILIATION OF CASH AND CASH EQUIVALENTS
PER STATEMENT OF CASH FLOWS TO THE BALANCE
SHEET:

Cash	\$ 205,375
Restricted cash	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 205,375</u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$(675,304)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	96,869
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	111
Prepaid expenses	316
Increase (decrease) in liabilities:	
Accounts payable	(361)
Accrued wage/payroll taxes payable	(301)
Accounts payable-PILOT	(133)
Deferred revenues	<u>1,108</u>
Net cash (used) by operating activities	<u>\$(577,695)</u>

See notes to financial statements

CHEBOYGAN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Cheboygan Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Cheboygan Housing Commission is a component unit of the City of Cheboygan, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Cheboygan on October 3, 1958, consisting of a five member board appointed by the City Mayor and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Cheboygan Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3023, the Housing Commission constructed, maintains and operates 38 units of subsidized housing in the City of Cheboygan, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 120 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Cheboygan Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Inventory

Inventory is priced using the average cost method.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$25 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Land improvements	15 years
Buildings	40 years
Equipment - portable	5 - 7 years
Furnishings	7 years
Office equipment	7 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave: Vacation leave not taken by the employees may be accumulated not to exceed the number of weeks earned in two years, unless otherwise approved by the Executive Director.

An employee who is permanently separated shall be paid, in a lump sum, at his/her current rate of pay for all unused vacation leave.

- * Sick leave: Employees will get 8 hours of sick pay each month. What sick time is not used by fiscal year-end will be paid back at 100% using the employees current rate of pay.

An employee that is terminated by Cheboygan Housing Commission

or quits on their own, will not receive any payment of their accumulated sick leave.

- * Each regular full-time employee shall be allowed one (1) personal day per calendar year, beginning with the employee's anniversary date. Use of such a personal day will be deducted from the employee's accumulated sick leave.

There was not an amount of accumulated benefits at March 31, 2006, therefore a liability for the accrual did not need to be set up in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$205,325 and the bank balance was \$214,766 of which \$214,766 was covered by federal depository insurance. The Housing Commission has \$50 in petty cash on hand.

Investments

The Housing Commission had the following investments in certificates of deposit as March 31, 2006:

First Federal of Northern Michigan	
Bank (CD #414053455)	<u>\$ 20,000</u>

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | |
|-------------------------------------|---|----------|
| 1. U.S. Treasury Notes | - | 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - | 75% and |
| 3. Mortgage Backed Securities | - | 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the combined statement of net assets follows:

Cash on hand	\$ 50
Carrying amount of deposits	205,325
Investments	<u>20,000</u>
Total	<u>\$ 225,375</u>

Cash and cash equivalents:	
Enterprise activities	\$ 234,816
Enterprise activities - checks written in excess of deposits	<u>(9,441)</u>
Total	<u>\$ 225,375</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At March 31, 2006, the receivables were \$-0- with \$-0- estimated as uncollectible. Bad debt expense was \$(223).

Accounts Receivables/Payables - HUD

Amounts due from HUD represents the amounts not advanced yet for actual expenses of the programs financed. Balances at March 31, 2006 were as follows:

Low Rent Program	<u>\$ -0-</u>
------------------	---------------

Amounts due to HUD represents overfunding the Housing Commission has received. Balances at March 31, 2006 were as follows:

Housing Choice Voucher Program	<u>\$ -0-</u>
--------------------------------	---------------

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$ 4,776	Housing Choice Voucher Program	\$ 4,776
	<u>\$ 4,776</u>		<u>\$ 4,776</u>

The capital fund program transferred \$43,007 to the Low Rent Program during the fiscal year ended March 31, 2006.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	<u>Balance</u> <u>03/31/05</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>03/31/06</u>
Low Rent Program				
Land	\$ 20,559	\$	\$	\$ 20,559
Buildings	636,051	24,661		660,712
Furniture, equip. & machinery - dwellings	25,966	1,017	2,323	24,660
Furniture, equip. & machinery - administration	61,578	13,045		74,623
Building improvements	<u>1,189,568</u>	<u>11,996</u>		<u>1,201,564</u>
	1,933,722	<u>\$ 50,719</u>	<u>\$ 2,323</u>	1,982,118
Less accumulated depreciation	<u>(1,566,246)</u>	<u>\$ (94,177)</u>	<u>\$ (3,042)</u>	<u>(1,663,465)</u>
Total	<u>\$ 367,476</u>			<u>\$ 318,653</u>
Capital Fund Program				
Buildings	\$ 39,922	\$	\$ 24,661	\$ 15,261
Furniture, equip. & machinery - dwellings		1,375		1,375
Furniture, equip. & machinery - administration	13,417	4,043	6,630	10,830
Building improvements	<u>18,292</u>	<u>10,458</u>	<u>11,716</u>	<u>17,034</u>
	71,631	<u>\$ 15,876</u>	<u>\$ 43,007</u>	44,500
Less accumulated depreciation	<u>(5,952)</u>	<u>\$ (2,209)</u>	<u>\$ 5,364</u>	<u>(2,797)</u>
Total	<u>\$ 65,679</u>			<u>\$ 41,703</u>
Housing Choice Voucher Program				
Furniture, equip. and machinery- administration	\$ 12,817	<u>\$ 800</u>	<u>\$</u>	\$ 13,617
Less accumulated depreciation	<u>(11,879)</u>	<u>\$ (482)</u>		<u>(12,361)</u>
Total	<u>\$ 938</u>			<u>\$ 1,256</u>
Combined Totals				<u>\$ 361,612</u>

NOTE 5: CONTRIBUTED CAPITAL

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended March 31, 2006, consist of the following:

	<u>Invested in Capital Assets</u>
Balance, beginning	\$ 434,093
Investment in fixed assets, net of depreciation paid for from operations net of depreciation.	(72,481)
Balance, ending	<u>\$ 361,612</u>

These reclassifications are investments in fixed assets, net of depreciation paid for from operations.

NOTE 6: OTHER INFORMATION**A. Pension Plan**

On May 4, 2005, the Housing Commission adopted Resolution 2005/09, Retirement/Pension Plan for Cheboygan Housing Commission. This plan will be implemented retroactive to April 1, 2004. The Housing Commission authorized on June 2, 2004, the Executive Director to remove \$20,000 from the general fund to establish the retirement/pension plan by depositing said sum into Account #414053455 at First Federal Savings & Loan Bank.

All permanent full-time employees are required to participate in the Program as a condition of their employment.

The employer will calculate eight percent(8%) on the employee's gross wages, pretaxed, and the Cheboygan Housing Commission will match the amount withheld and all monies are to be deposited at First Federal of Northern Michigan Bank in a Commercial Money Market account set up specifically for the Cheboygan Housing Commission Retirement Program.

The pension plan is a defined benefit pension plan. The pension employer contributions during the fiscal year ended March 31, 2006 totaled \$4,574.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

Transfer completed 2003 Capital Fund to Low Rent	\$ 32,739
Transfer completed 2003-02 Capital Fund to Low Rent	<u>10,268</u>
	<u>\$ 43,007</u>

Capital Fund Program

Transfer completed 2003 Capital Fund to Low Rent	\$(32,739)
Transfer completed 2003-02 Capital Fund to Low Rent	<u>(10,268)</u>
	<u>\$(43,007)</u>

Housing Choice Voucher Program

To write off HUD payable due to new funding rules \$ 4,940

NOTE 7: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes four separate programs which provide housing assistance and grant programs. Segment information for the year ended March 31, 2006, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>
Condensed Statement of Net Assets			
Current assets	\$ 143,512	\$	\$ 97,043
Property and equipment	318,653	41,703	1,256
Total assets	<u>\$ 462,165</u>	<u>\$ 41,703</u>	<u>\$ 98,299</u>
Current liabilities	<u>\$ 20,576</u>	<u>\$</u>	<u>\$ 5,132</u>
Net assets:			
Invested in capital assets	318,653	41,703	1,256
Unrestricted net assets	122,936		91,911
Total net assets	<u>441,589</u>	<u>41,703</u>	<u>93,167</u>
Total liabilities and net assets	<u>\$ 462,165</u>	<u>\$ 41,703</u>	<u>\$ 98,299</u>

Condensed Statement of Activities			
Dwelling and nondwelling rents	\$ 72,230	\$	\$
Depreciation	(94,177)	(2,209)	(483)
Other operating expenses	<u>(150,619)</u>	<u>(18,809)</u>	<u>(481,237)</u>
Operating(loss)	<u>(172,566)</u>	<u>(21,018)</u>	<u>(481,720)</u>
Nonoperating revenues:			
Operating transfers in(out)	40,055	(40,055)	
Investment earnings	2,281		2,874
Fraud recovery			217
Other revenue	94		
Gain on sale of fixed assets	100		
Operating grants	68,025	58,864	491,413
Capital grants		21,240	
Change in net assets	<u>(62,011)</u>	<u>19,031</u>	<u>12,784</u>
Prior period adjustments	43,007	(43,007)	4,940
Beginning net assets	<u>460,593</u>	<u>65,679</u>	<u>75,443</u>
Ending net assets	<u>\$ 441,589</u>	<u>\$ 41,703</u>	<u>\$ 93,167</u>

Condensed Statement of Cash Flows			
Net cash provided (used) by:			
Operating activities	\$ (77,252)	\$ (18,809)	\$ (481,634)
Noncapital financing activities	115,349	18,809	487,500
Capital and related financing activities	(2,247)		(801)
Investing activities	<u>2,281</u>	<u></u>	<u>2,874</u>
Net increase (decrease)	<u>38,131</u>	<u></u>	<u>7,939</u>
Beginning cash and cash equivalents	<u>70,201</u>	<u></u>	<u>89,104</u>
Ending cash and cash equivalents	<u>\$ 108,332</u>	<u>\$</u>	<u>\$ 97,043</u>

SUPPLEMENTARY INFORMATION

CHEBOYGAN HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 March 31, 2006

=====

C-3023	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 108,332	\$
Investments-unrestricted	20,000	
Prepaid expenses	9,294	
Inventories	1,110	
Due from other programs	<u>4,776</u>	
Total current assets	<u>143,512</u>	

Property and equipment:

Land	20,559	
Buildings	660,712	15,261
Equipment	99,283	12,205
Building improvements	<u>1,201,564</u>	<u>17,034</u>
	1,982,118	44,500
Less accumulated depreciation	<u>(1,663,465)</u>	<u>(2,797)</u>

Net property and equipment	<u>318,653</u>	<u>41,703</u>
----------------------------	----------------	---------------

Total Assets	<u>\$ 462,165</u>	<u>\$ 41,703</u>
--------------	-------------------	------------------

Housing
Choice
Vouchers
14.871

Totals

\$ 97,043	\$ 205,375
	20,000
	9,294
	1,110
	<u>4,776</u>
<u>97,043</u>	<u>240,555</u>

	20,559
	675,973
13,617	125,105
	<u>1,218,598</u>
13,617	2,040,235
<u>(12,361)</u>	<u>(1,678,623)</u>
<u>1,256</u>	<u>361,612</u>
<u>\$ 98,299</u>	<u>\$ 602,167</u>

CHEBOYGAN HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
 March 31, 2006
 =====

C-3023	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

LIABILITIES and NET ASSETS

Current liabilities:		
Accounts payable	\$ 10,509	\$
Tenant security deposit liability	6,329	
Accrued expenses	1,929	
Deferred revenues	1,809	
Due to other programs		
	<u>20,576</u>	
Total current liabilities		
Net Assets:		
Invested in capital assets	318,653	41,703
Unrestricted net assets	<u>122,936</u>	
	<u>441,589</u>	<u>41,703</u>
Total net assets		
Total Liabilities and Net Assets	<u>\$ 462,165</u>	<u>\$ 41,703</u>

Housing Choice Vouchers		<u>Totals</u>
14.871		
\$ 356	\$ 10,865	
	6,329	
	1,929	
	1,809	
<u>4,776</u>	<u>4,776</u>	
<u>5,132</u>	<u>25,708</u>	
1,256	361,612	
<u>91,911</u>	<u>214,847</u>	
<u>93,167</u>	<u>576,459</u>	
<u>\$ 98,299</u>	<u>\$ 602,167</u>	

CHEBOYGAN HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
 Year Ended March 31, 2006
 =====

	C-3023 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 68,732	\$
Nondwelling rent	<u>3,498</u>	<u> </u>
Total operating revenues	<u>72,230</u>	<u> </u>
OPERATING EXPENSES:		
Administration	54,291	18,809
Tenant services	987	
Utilities	20,734	
Ordinary maintenance and operation	59,491	
General expenses	15,116	
Housing assistance payments		
Depreciation	<u>94,177</u>	<u>2,209</u>
Total operating expenses	<u>244,796</u>	<u>21,018</u>
Operating income(loss)	<u>(172,566)</u>	<u>(21,018)</u>
NONOPERATING REVENUES:		
Operating transfers in(out)	40,055	(40,055)
Investment interest income	2,281	
Fraud recovery		
Other revenue	94	
Gain on sale of fixed assets	100	
Capital grants		21,240
Operating grants	<u>68,025</u>	<u>58,864</u>
Total nonoperating revenues	<u>110,555</u>	<u>40,049</u>
Change in net assets	(62,011)	19,031
Prior period adjustments, equity transfers and correction of errors	43,007	(43,007)
Net assets, beginning	<u>460,593</u>	<u>65,679</u>
Net assets, ending	<u>\$ 441,589</u>	<u>\$ 41,703</u>

Housing Choice Vouchers 14.871	Totals
\$	\$ 68,732
	3,498
	72,230
56,060	129,160
	987
	20,734
	59,491
	15,116
425,177	425,177
483	96,869
481,720	747,534
(481,720)	(675,304)
2,874	5,155
217	217
	94
	100
	21,240
491,413	618,302
494,504	645,108
12,784	(30,196)
4,940	4,940
75,443	601,715
\$ 93,167	\$ 576,459

CHEBOYGAN HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended March 31, 2006
 =====

	C-3023 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 73,449	\$
Cash payments to other suppliers of goods and services	(63,980)	
Cash payments to employees for services	(81,884)	(18,809)
Cash payments for in lieu of taxes	<u>(4,837)</u>	
Net cash (used) by operating activities	<u>(77,252)</u>	<u>(18,809)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers in(out)	40,055	(40,055)
Tenant security deposits	(888)	
Due from/to other funds	2,639	1,491
Operating grants	73,438	57,373
Fraud recovery		
Other revenue	<u>105</u>	
Net cash provided by noncapital financing activities	<u>115,349</u>	<u>18,809</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Gain on sale of fixed assets	100	
Capital grants		21,240
Payments for capital acquisitions	<u>(2,347)</u>	<u>(21,240)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,247)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts of interest and dividends	<u>2,281</u>	
Net cash provided (used) by investing activities	<u>2,281</u>	
Net increase(decrease) in cash	38,131	
Cash, beginning	<u>70,201</u>	
Cash, ending	<u><u>\$ 108,332</u></u>	<u><u>\$</u></u>

Housing Choice Vouchers 14.871	Totals
\$	\$ 73,449
(454,605)	(518,585)
(27,029)	(127,722)
	(4,837)
<u>(481,634)</u>	<u>(577,695)</u>
	(888)
(4,130)	
491,413	622,224
217	217
	<u>105</u>
<u>487,500</u>	<u>621,658</u>
	100
	21,240
<u>(801)</u>	<u>(24,388)</u>
<u>(801)</u>	<u>(3,048)</u>
<u>2,874</u>	<u>5,155</u>
<u>2,874</u>	<u>5,155</u>
7,939	46,070
<u>89,104</u>	<u>159,305</u>
<u>\$ 97,043</u>	<u>\$ 205,375</u>

CHEBOYGAN HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2006
=====

C-3023	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF CASH
FLOWS TO THE BALANCE SHEET:**

Cash	\$ 108,332	\$
Restricted cash	<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 108,332</u>	<u>\$</u>

**SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:**

Operating income(loss)	\$ (172,566)	\$ (21,018)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	94,177	2,209
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	111	
Prepaid expenses	316	
Increase (decrease) in liabilities:		
Accounts payable	36	
Accrued wage/payroll taxes payable	(301)	
Accounts payable-PILOT	(133)	
Deferred revenues	<u>1,108</u>	<u> </u>
Net cash (used) by operating activities	<u>\$ (77,252)</u>	<u>\$ (18,809)</u>

Housing Choice Vouchers 14.871	Totals
<hr/>	<hr/>
\$ 97,043	\$ 205,375
<hr/>	<hr/>
<u>\$ 97,043</u>	<u>\$ 205,375</u>
\$ (481,720)	\$ (675,304)
483	96,869
	111
	316
(397)	(361)
	(301)
	(133)
<hr/>	<hr/>
	1,108
<u>\$ (481,634)</u>	<u>\$ (577,695)</u>

CHEBOYGAN HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended March 31, 2006

=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	Public and Indian Housing <u>Nonmajor - Direct Program</u>		
2006	Low Rent Public Housing	14.850	\$ 68,025
	Public and Indian Housing <u>Nonmajor - Direct Program</u>		
2006	Capital Fund Program	14.872	80,104
	Low Income Public Housing <u>Major - Direct Program</u>		
2006	Housing Choice Vouchers	14.871	<u>491,413</u>
	Total		<u>\$ 639,542</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

CHEBOYGAN HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended March 31, 2006

=====

FDS Line Item No.		C-3023 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 96,261	\$
114	Cash-tenant security deposits	<u>12,071</u>	<u> </u>
100	Total cash	<u>108,332</u>	<u> </u>
	Current Investments:		
131	Investments-unrestricted	<u>20,000</u>	<u> </u>
	Other Current Assets:		
142	Prepaid expenses and other assets	9,294	
143	Inventories	1,110	
144	Interprogram due from	<u>4,776</u>	<u> </u>
	Total other current assets	<u>15,180</u>	<u> </u>
150	Total current assets	<u>143,512</u>	<u> </u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	20,559	
162	Buildings	660,712	15,261
163	Furn, equip & mach-dwellings	24,660	1,375
164	Furn, equip & mach-admin.	74,623	10,830
165	Building improvements	1,201,564	17,034
166	Accumulated depreciation	<u>(1,663,465)</u>	<u>(2,797)</u>
160	Total fixed assets, net of accumulated depreciation	<u>318,653</u>	<u>41,703</u>
180	Total noncurrent assets	<u>318,653</u>	<u>41,703</u>
190	Total Assets	<u>\$ 462,165</u>	<u>\$ 41,703</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
 \$ 97,043	 \$ 193,304
<u>97,043</u>	<u>12,071</u>
	<u>205,375</u>
	<u>20,000</u>
	9,294
	1,110
	<u>4,776</u>
	<u>15,180</u>
<u>97,043</u>	<u>240,555</u>
	20,559
	675,973
	26,035
13,617	99,070
	1,218,598
<u>(12,361)</u>	<u>(1,678,623)</u>
<u>1,256</u>	<u>361,612</u>
<u>1,256</u>	<u>361,612</u>
<u>\$ 98,299</u>	<u>\$ 602,167</u>

CHEBOYGAN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2006
 =====

FDS Line Item No.		C-3023 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 5,805	\$
321	Accrued wage/payroll taxes payable	1,929	
333	Accounts payable-other government	4,704	
341	Tenant security deposits	6,329	
342	Deferred revenues	1,809	
347	Interprogram due to	<u> </u>	<u> </u>
310	Total current liabilities	<u>20,576</u>	<u> </u>
300	Total liabilities	<u>20,576</u>	<u> </u>
	Net Assets:		
508.1	Invested in capital assets	<u>318,653</u>	<u>41,703</u>
508	Total invested in capital assets	318,653	41,703
512.1	Unrestricted net assets	<u>122,936</u>	<u> </u>
513	Total Net Assets	<u>441,589</u>	<u>41,703</u>
600	Total Liabilities and Net Assets	<u>\$ 462,165</u>	<u>\$ 41,703</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 356	\$ 6,161
	1,929
	4,704
	6,329
	1,809
<u>4,776</u>	<u>4,776</u>
<u>5,132</u>	<u>25,708</u>
<u>5,132</u>	<u>25,708</u>
<u>1,256</u>	<u>361,612</u>
1,256	361,612
<u>91,911</u>	<u>214,847</u>
<u>93,167</u>	<u>576,459</u>
<u>\$ 98,299</u>	<u>\$ 602,167</u>

CHEBOYGAN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended March 31, 2006

=====

FDS Line Item No.		C-3023 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 68,732	\$
704	Tenant revenue-other	<u>3,498</u>	
705	Total tenant revenue	72,230	
706	HUD PHA grants	68,025	58,864
706.1	Capital grants		21,240
711	Investment income-unrestricted	2,281	
714	Fraud recovery		
715	Other revenue	94	
716	Gain on sale of fixed assets	<u>100</u>	
700	Total revenue	<u>142,730</u>	<u>80,104</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	29,697	17,380
912	Auditing fees	1,170	
915	Employee benefit contributions-adm.	12,840	1,429
916	Other operating-administrative	10,584	
	Tenant Services:		
924	Tenant services-other	987	
	Utilities:		
931	Water	10,701	
932	Electricity	2,623	
933	Gas	7,410	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	18,977	
942	Ordinary maint & oper-mat'ls & other	6,793	
943	Ordinary maint & oper-contract costs	13,652	
945	Employee benefit contributions	20,069	
	General expenses:		
961	Insurance premiums	10,635	
962	Other general expenses		
963	Payments in lieu of taxes	4,704	
964	Bad debt-tenant rents	<u>(223)</u>	
969	Total operating expenses	<u>150,619</u>	<u>18,809</u>
970	Excess operating revenue over operating expenses	<u>(7,889)</u>	<u>61,295</u>

Housing Choice Vouchers 14.871	Totals
\$	\$ 68,732
	3,498
	72,230
491,413	618,302
	21,240
2,874	5,155
217	217
	94
	100
494,504	717,338
12,948	60,025
1,430	2,600
14,081	28,350
27,375	37,959
	987
	10,701
	2,623
	7,410
	18,977
	6,793
	13,652
	20,069
	10,635
226	226
	4,704
	(223)
56,060	225,488
438,444	491,850

CHEBOYGAN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2006
 =====

FDS Line Item No.		C-3023 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
970	Excess operating revenue over operating expenses	<u>(7,889)</u>	<u>61,295</u>
	Other expenses:		
973	Housing assistance payments		
974	Depreciation expense	<u>94,177</u>	<u>2,209</u>
	Total other expenses	<u>94,177</u>	<u>2,209</u>
900	Total expenses	<u>244,796</u>	<u>21,018</u>
	Other Financing Sources(Uses) :		
1001	Operating transfers in	40,055	
1002	Operating transfers out		<u>(40,055)</u>
1010	Total other financing sources(uses)	<u>40,055</u>	<u>(40,055)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(62,011)	19,031
1103	Beginning Net Assets	460,593	65,679
1104	Prior period adjustments, equity transfers and correction of errors	<u>43,007</u>	<u>(43,007)</u>
	Ending Net Assets	<u>\$ 441,589</u>	<u>\$ 41,703</u>

Housing Choice Vouchers 14.871	<u>Totals</u>
<u>438,444</u>	<u>491,850</u>
425,177 <u>483</u>	425,177 <u>96,869</u>
<u>425,660</u>	<u>522,046</u>
<u>481,720</u>	<u>747,534</u>
	40,055 <u>(40,055)</u>
12,784	(30,196)
75,443	601,715
<u>4,940</u>	<u>4,940</u>
<u>\$ 93,167</u>	<u>\$ 576,459</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Cheboygan Housing Commission
Cheboygan, Michigan

I have audited the financial statements of the business-type activities of the Cheboygan Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated October 20, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Cheboygan Housing Commission
Page Two

Compliance and Other Matters (continued)

compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated October 20, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry E. Sandtke, CPA, PC

October 20, 2006

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Cheboygan Housing Commission
Cheboygan, Michigan

Compliance

I have audited the compliance of the Cheboygan Housing Commission , Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2006. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Cheboygan Housing Commission
Page Two

Compliance (continued)

In my opinion, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2006.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated October 20, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Dan E. Fawcett, CPA, PC

October 20, 2006

CHEBOYGAN HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 March 31, 2006
 =====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness identified No
 - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness identified No
 - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

<u>CFDA</u> <u>Number</u>	<u>Federal Program</u>	<u>Amount</u> <u>Expended</u>	<u>Major</u> <u>Program</u>	<u>Compliance</u> <u>Requirement</u>	<u>Questioned</u> <u>Costs</u>	<u>Audit</u> <u>Finding</u>
14.850	Low Rent Public Housing	\$ 68,025	No	O	N/A	N/A
14.872	Capital Fund Program	80,104	No	O	N/A	N/A
14.871	Housing Choice Vouchers	<u>491,413</u>	Yes	O	N/A	N/A
	Total	<u>\$ 639,542</u>				

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? Yes

CHEBOYGAN HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
March 31, 2006
=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

CHEBOYGAN HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
March 31, 2006

=====

NONE

CHEBOYGAN HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
MARCH 31, 2006

=====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
-----------------------	---------------------	--------------	---------------

LOW RENT PROGRAM:

There were no adjusting journal entries.

CHEBOYGAN HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

MARCH 31, 2006

CHEBOYGAN HOUSING COMMISSION
CONTENTS
MARCH 31, 2006

	<u>Page</u>
Independent Auditors' Report on Communications With the Audit Committee/Board of Commissioners	1-2
Independent Auditors' Report on Management Advisory Comments	3
Management Advisory Comments	4-5
Adjusting Journal Entries	6

**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Cheboygan Housing Commission

I have audited the financial statements of the Cheboygan Housing Commission ("Housing Commission") as of and for the year ended March 31, 2006, and have issued my report, thereon, dated October 20, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 6 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Barry E. Faudett, CPA, PC

October 20, 2006

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Cheboygan Housing Commission

I have audited the financial statements of the Cheboygan Housing Commission ("Housing Commission") as of and for the year ended March 31, 2006, and have issued my report, thereon, dated October 20, 2006. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, PC

October 20, 2006

CHEBOYGAN HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS

March 31, 2006

=====

Invoice Approval

The Housing Commission has adequate internal controls for the payment of invoices. The disbursement checks are prepared by someone other than a check signer. The Executive Director reviews and marks the invoice before signing the checks. A Commissioner also, reviews the documentation supporting the payment before signing the second signature. At the Boards monthly meeting, the Board will review a listing of paid checks and then approve the payments.

The Michigan Department of Treasury requires that the board approve all invoices prior to payment unless addressed otherwise in the charter. The board may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the board for approval.

Cash Collections

Tenants currently can pay their rents by cash, check or money order.

We recommend that the Housing Commission consider not allowing payments by cash. This would provide another internal control in the collection of assets.

Cash Deposits

The Housing Commission makes deposits of any cash collected once the total reaches \$1,000.

We recommend the Housing Commission consider making the deposits more often.

CHEBOYGAN HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
March 31, 2006

=====

Tenant Files

We selected at random three(3) low rent and seven(7) Housing Choice Voucher tenant files to thoroughly test. The results are as follows:

Low Rent Program

All 3 tenant files missing the annual Privacy Act Notice, 1 inspection report was missing, 1 picture ID was missing, all 3 were missing the declaration of citizenship, and 1 was missing a social security card copy.

The Housing Commission needs to concentrate on obtaining any missing documentation at the annual reexamination or interim reviews.

Housing Choice Voucher Program

There was 1 tenant file that had the incorrect income verification, 6 were missing the picture ID's, 6 were missing copies of the social security cards, 2 were missing the citizenship declarations, 1 had the rent calculated incorrectly, and 1 was missing the application.

Correct tenant rent calculations is one(1) of the fourteen(14) indicators that make up the Section Eight Management Assessment Program (SEMAP) that determines whether the Housing Commission has an overall performance rating of *high, standard, or troubled*.

The other missing items are required by HUD to be in the tenant files.

Again, the Housing Commission needs to concentrate on obtaining any missing documentation at the annual reexamination or interim reviews and to review tenant files to be sure that the error in calculating the rent income has not happened to any other tenants.

CHEBOYGAN HOUSING COMMISSION

ADJUSTING JOURNAL ENTRIES

March 31, 2006

=====

FDS				
<u>Line Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>	

LOW RENT PROGRAM:

There were no adjusting journal entries.